IS THERE ENOUGH BANKING?

BY SAMUEL SPRING

CRITICISMS of banking have been so constant of late years that they have grown monotonous. Among the poor the word finance has come almost to have a sinister implication. Ponzi, embarking on his amusing yet sordid adventure of doubling the people's money in thirty days, used as his most telling argument a diatribe against the bankers who, he said, were making profits of several thousand per cent a year in international exchange and were determined to destroy Ponzi, the people's friend, because Ponzi shared his profits with the poor. Since the collection and allotment of capital—the function of banking—is the controlling aspect of our capitalistic system, it is but natural that those radicals who abhor capitalism should assail banking. Even some who accept the basis of our society have a scorn of accumulated wealth. Henry Adams found that part of the Adams's tradition in New England was to be at sword's points with State Street. Yet the distrust of banking in America, it would seem, involves causes deeper and more significant than mere attacks upon capitalism or the intellectual scorn of wealth.

There appears, indeed, to be something rasping and irritating to the poor about our banking system. A politician finds the horror of both Socialism and Wall Street bankers a sturdy dependable stepladder to office. The Farmer-Labor Congress, recently held in Chicago, decided that credit and banking were the greatest need today of farmers and labor, and then quickly followed with a caustic attack upon the so-called banking despots of America. Banking is an ancient, an honorable, an indispensable business. The basis of banking is confidence. Anything that impairs confidence is an obvious menace. Ponzi disturbed the Boston public's confidence in banking and at once six Boston banks closed their doors. What is the cause of this too widespread irritation and hostility? Is it that the farmer and the

worker, particularly those of immigrant stock, accept the cynic's monotonous creed and feel that American Banking, even under the Federal Reserve System, represents an improper concentration of power in the hands of the few? Perhaps the chief fault with American Banking is that there is not enough of it, that it is propped up too high, and does not reach down below the middle class to the workers. Men are always hostile to institutions which are closed to them.

Oddly enough, the many indications of this lack of sufficient banking in America are commonly viewed as haphazard, unrelated accidents.

Everyone abhors the usurer. When a newspaper prints a story of a "loan-shark" exacting two hundred per cent compound interest from a widow or a desperate wage-earner, all of us instantly have a yearning to boil the Shylock in oil. The law should forbid usury, we immediately conclude, without determining where a worker today can get fifty or a hundred dollars during sickness and unemployment, on his character alone, if not from the usurer.

When a tinseled, brazen fraud like the Ponzi scheme surges through the press, the public half pities, half scorns the immigrants who proclaimed Ponzi the greatest Italian since Columbus while they poured their savings into his facile hands. The law should prohibit such frauds, the public concludes—if any law can succeed in keeping a fool and his money together. Few recognize any basic relation between usury and fraudulent promotions.

And thrift! Out of the wreckage of the war's propaganda efforts are now being made to rescue the movement to encourage thrift—but without noticeable success. We find that with the American desire for an active, adventurous life there has not been evident in the past a great impulse to save. The immigrant is more thrifty than the native American. Somehow, beating the tom-toms now that the war is over and crying "Save, that America may be great!" does not seem to excite the people. Drives have become unbearable. Yet saving is the source of all capital. Where can the incentive to thrift be found?

A lack of desire to save with a stifling shortage of money and capital; the perplexing success of fraudulent promoters robbing

American workers of a third to a half a billion of dollars annually; the complete absence of credit facilities for the poor (what bank will lend a worker in distress fifty dollars on his unsecured note?) resulting in the maleficent power of the usurer: are these merely isolated disorders? Rather, do they not indicate, when considered in the light of the popular distrust of banking, a gap in our financial system? For these incidents are all aspects of banking operations—or rather of the lack of banking facilities.

The situation has ceased to be a problem; it has become a field of action. The workers themselves are moving forward. The Brotherhood of Locomotive Engineers, finding their efforts to control the railroads under the Plumb Plan frustrated, have started their own Coöperative National Bank with a paid-in capital of a million dollars—an opening move in a policy which unquestionably will be of greater significance and more lasting influence in America than the entire ill-starred Plumb Carnival.

Consider credit. Modern business would perish without the free use of credit. No one today would say even to the small business man: "Neither a borrower nor a lender he." Yet when it is said that the worker or farmer needs a small loan on his unsecured note and is forced to go to the loan-shark because no bank will accommodate him, most bankers conclude that a thrifty worker does not need to borrow. It serves him right, is the verdict, if he has to pay a grotesque rate of interest; the lesson will teach him thrift. Yet how shallow such a conclusion is! Misfortune, unemployment, sickness, the needs of a large family—these setbacks every year reduce great numbers of thrifty and steady workmen to conditions of piercing need. When a workman does prosper it is natural for him to plunge—not in the stockmarket, but by buying a piano, a home, or insurance on the installment plan. Anything bought on the installment plan, from a home to furniture, is not acceptable collateral for a loan; never an asset, but a distinct liability, until fully paid. Coöperative Land Banks and Building and Loan Associations have made it easier for the worker to buy his home, but not to such an extent as to solve the problem. Many a worker, moreover, who is paid at the end of the month, or twice a month, finds it a tremendous task to accumulate enough so that he can meet both

last and next months' bills. Numberless American families, in truth, never do get a pay-day ahead, as is shown by the fact that most retail grocers catering to the working classes are forced to do business on the wasteful credit basis. The success and prevalence of installment houses in America indicate the existence of unhealthy credit conditions among the working classes which can be remedied only by the encouragement of thrift and by credit facilities for the unusual case. Cash payments are the only sound basis for small business. Moreover, there are seasonal demands upon the worker just as there are upon the farmer or the business man. The autumn, with the need of storing up coal, clothing the children for school, and preparing for the winter, represents a genuine strain in the great bulk of American homes. In brief, we have here a repetition of the familiar credit needs of modern economic life—only on a Lilliputian scale.

With the farmer, the situation is much more acute than with the industrial worker. For many decades the banker smiled when the farmer complained bitterly of the lack of credit facilities with which to buy land for farming. "Don't buy your farm until you have saved enough to pay for it," was the solution proposed by the banker. But is credit the divine right of the industrial entrepreneur? The Federal Farm Loan Act has furnished credit to the farmer for the purchase of land; yet the farmer, since as a rule he can collect on his labor only once a year, still needs credit facilities for the purchase of stock, tools, and supplies. One of the sombre aspects of our farm life today is the Shylock system of merchant advances to the farmer. The merchant in the cotton belt, who is also usually a small cotton broker, finances the farmer in his district at a rate of interest, it is estimated, from thirty to fifty per cent per annum, and gambles, at the farmer's expense, with the farmer's cotton. The same is true to a less degree in the fruit lands of California and in the grain fields of the Middle West. The remarkable, the menacing feature of our farm life is the increase of tenantry and the decrease of farm owners. The causes of this deterioration in American agriculture are many—but usurious rates of interest, obviously, are having a baleful influence upon our farming population.

The perplexing aspect of the activities of money lenders is that credit can be extended by them in small amounts only at a tremendous rate of interest. The Russell Sage Foundation, after an examination of the books of various money-lenders, concluded that from thirty to forty-two per cent interest per year was needed in order to afford the money-lender a reasonable profit. Some organizations advertise six or seven per cent per annum as their charge, but greatly increase that rate by various devices. The smallness of the individual operation, the difficulty of ascertaining the character of the borrower so that loss may be avoided, the heavy overhead and book-keeping costs involved, all prohibit the ordinary banker from considering such loans, and require a tremendous interest charge by the small money-lender.

Indeed, the banker today is not equipped for such business either in training or in point of view. Most loans of discount bankers are on unsecured paper; that is, they are purely loans of character. A banker will lend ten thousand dollars on character where he would refuse to lend the same man one hundred dollars. Small loans under our present banking system are unprofitable. More than that, successful banks always grow larger, and as they grow larger they have less interest in the smaller business men. One of the acute Americanization problems in our industrial cities is the lack of safe banking accommodations for the immigrant merchant. The banker, coming usually of native stock, is unable to understand the perplexed and emotional immigrant business men. Knowing that confidence is the basis of banking, and determining that like Caesar's wife they must be above suspicion, bankers generally seek refuge from suspicion by turning their banks into Greek mausoleums and conducting their business with sepulchral coldness of manner and thought. Thus the small, timid borrower, as well as the small depositor, is chilled at the threshold. The wide and unfortunate prevalence of private banking in our industrial centers is largely a result of this coldness in banking. But aside from the problem of small banks, the fact remains that existing banks, both urban and rural, cannot handle small loans at a profit, and that as a result there is a gap in the present banking structure.

The Farmer-Labor movement to start small coöperative banks

unquestionably fills this gap by creating economically sound and safe banking units. The small sums of money involved in popular banking make low overhead and operating charges imperative. Coöperative banking alone can meet this paramount condition. There is indeed nothing novel or surprising about such coöperative banking units except the fact that there are so few of them in America and that our established banks and the Government have been so inactive in encouraging their organization. Since there is no Federal legislation making it possible to create interstate Coöperative Banks, the Brotherhood of Locomotive Engineers was forced to use the unsuited machinery of a national bank. Massachusetts has been a pioneer in establishing people's banks or credit unions, as they are called, and in 1909 placed favoring legislation on its statute banks. So have five other States. There are in Massachusetts over thirty-five thousand shareholders of credit unions; seventy credit unions have assets of over three millions of dollars, and last year made almost fourteen thousand provident loans. The number of loan-sharks in Boston in the nine years of credit union activity has declined from three hundred to forty. In the province of Quebec, Canada, the *Caisses Populaires* or People's Banks number almost two hundred, with assets of over twelve millions. Coöperative banks have for generations been extremely successful in Europe. In 1919 there were approximately sixty-five thousand of these people's banks in Europe with an annual overturn of the staggering sum of seven billions of dollars. Italy has been exceptionally fortunate in establishing such organizations. Thus the Locomotive Engineers, the Telephone Workers, the Garment Makers, and other trade groups in starting such banks are not blazing new trails but following in beaten though neglected paths.

The organization of people's banks, as established under Massachusetts or Texas or New York laws, is simple. A banking corporation is organized with the consent and under the guidance of the Bank Commissioner. Shares of small par value —for example, ten dollars,—are sold on the installment plan. The shareholders are limited to one vote each in electing directors, regardless of the number of shares held, in accord with the

Rochedale principle of coöperation of one man, one vote. Loans are made out of capital and deposits and to shareholders only; when a loan is over fifty dollars, security in the form of an endorsement or collateral is required. All interest on loans is distributed to shareholders in the form of dividends. Since these banks can be organized in small units and are mobile and facile, they can be started among natural social groups—workers in one factory, the residents of a neighborhood, or the members of a lodge or society.

The outstanding weakness of such organizations, as is true in the case of all coöperative movements, is the lack of vigorous control and direction arising from the absence of personal interest. Credit unions are seldom organized spontaneously; propaganda and education are necessary and to a considerable degree. Moreover, the direction and assistance of established credit unions by some outside interest seems necessary. Bookkeeping difficulties, lax methods, extreme attitudes toward loans often appear. One credit union may operate as a philanthropic organization and lend without discretion; another may be unusually bold and hoist interest rates in order to pay non-borrowing, investing members handsome returns. Thus the uncertainty of popular banking must not be ignored, although it must be said that existing credit unions have shown surprisingly few losses. Again it must be recognized that a small, unsocial part of our public desires to obtain its loans secretly. The sensitiveness and pride of some borrowers may be unfortunate yet it must not be overlooked. Small money lenders must be dealt with intelligently, and encouraged to put their business on a tolerable basis, instead of suppressed by unreasoning prohibition.

The vast growth of fraternal orders in America, the instinctive skill of the American in creating unofficial organizations—trade unions, chambers of commerce, vigorous societies to protect everything from animals to moribund traditions—show that the weakness in coöperative banking is not fatal. Much of New England's wealth has been accumulated in mutual savings banks controlled by public spirited trustees with the depositors acting as stockholders. In the case of our railroads and large industrial corporations the stockholders are always absentee

owners and delegate the management of the enterprise to a small group of bold men in whom they have confidence or whom they are unwilling to depose. Only those large private corporations having intelligent and public spirited directors are successful. Thus people's banks are run by a small group of the more forceful shareholders who make mistakes but who devote a great deal of time and energy to the work. The need of intelligent and public spirited directors is not greater here than in the case of big business. Outside aid can be given to existing credit unions by the State, or by a council or clearing-house including the more vigorous credit unions. The German method of corporate management, adopted in England in the case of coöperative organizations, of putting a check upon improper corporate action by creating in addition to a board of directors a board of supervisors, consisting of shareholders who are not directors, empowered to audit, supervise and to prevent fraud, seems a desirable though unlikely addition to coöperative banking in America. The outstanding feature of credit unions, it must be remembered, is that by their very nature they are exceptionally qualified to pass upon the risk involved in a small loan. A credit committee composed of laborers or farmers who work or live near the applicant for a loan can ascertain his character and habits readily. A worker with a good character is respected by his associates and finds that his character, in times of distress, is a banking asset. Intelligent industrial managers are encouraging the growth of credit unions by contributing free rent and bookkeeping guidance. Much, indeed, can be said about the workings of people's banks. The essential facts involved are, however, that credit facilities at a reasonable interest charge for the working and farming classes must be applied as the basic support of our credit and capitalistic system, and that coöperative banking, as is clearly shown by European experience, alone can meet the need and function in this vast yet restricted field. If the State and the banking world would show a more intelligent appreciation of the credit difficulties with which farmers and laborers are struggling, the problem would be less embittered. The gap in our banking system must and will be filled; if it is filled soon, questions of finance will not be enshrouded in so lurid a mist of class hatred.

Thrift involves a problem not only of the desire to save, but of creating a machinery for saving. The accumulation of money by the saving of pennies and other small coins carries with it the underlying mechanical difficulty of providing a place where the saver can deposit his daily or weekly savings. Penny and five cent banks have been started in America, but they have soon ceased to be more than an ordinary savings bank. It is impossible for the ordinary bank, because of the clerical and overhead expense involved, to receive deposits of less than a dollar, or indeed of less than five dollars. Children's banks have been distributed by some banks as a convenient device, but with scant success. How can the worker's pennies and nickles be handled in a manner that will encourage him to save?

For saving involves a marked though subtle psychological impulse. The boy accumulating marbles and his grandmother saving trading stamps; the clerk struggling to get his first thousand dollars and his employer gloating over the number of his art treasures—all are yielding to an underlying prehensile instinct deeper even than selfishness. For the gratification of this instinct demands not only accumulation, but visible proof or symbols of accumulation. The Treasury Department in starting its thrift campaign quickly perceived this fact, and issued attractive Savings and Thrift Stamps. The scope of this plan is now being extended by the issuance of dollar and twenty-five dollar stamps. The accumulation of twenty-five cent thrift stamps, however, still remains the basis of this system. The entries on Savings Bank books have somewhat the same gratification. Procrastination is both the thief of time and the assassin of thrift. So long as banks are open only during working hours, so long as workers are expected to go out of their way to deposit savings or wait until they have accumulated a large sum before depositing, the majority will procrastinate. Many industrial managers have tried to meet this difficulty by deducting, with each worker's consent, a certain amount weekly from the pay envelopes for deposit in a Savings Bank. Many Liberty Bonds were bought by this method. Some industrial managers allow their workers to purchase stock representing an interest in the factory on the installment plan, deducting weekly payments

thereon from pay envelopes. The ownership of stock by wage-earners of our industrial corporations has been advocated by some as a solution of the labor problem. Some of our most powerful and aggressive industrial managers have adopted this plan as a fighting weapon against the closed shop. Unquestionably the approach to coöperation in industry by this method of thrift has great possibilities. Workers, however, frequently object to a plan whereby the employer saves for them as limiting their independence. The impulse to save, indeed, is checked where the individual depends upon others to do the saving for him.

Credit unions partly fill this gap. The treasurer of a credit union composed of workers in a factory or residents in a neighborhood can gather in the small deposits and deposit the gross amount. This method was adopted by the Federal Government during the Thrift Campaign by the organization of War Savings Clubs. Yet constant education and attractive reminders must be utilized to keep alive the desire to save.

But above all else, the impulse to save can be kept active and compelling only by the hope and opportunity of accumulating riches. The fascination of building up wealth which will enable a worker in his old age to survive, and before then to enjoy some of the ease and comforts of life, is the only genuine impulse to thrift. Today the only opportunity the poor have to save is that offered by installment houses and savings banks. Money saved and hoarded is more useless to a nation than money squandered. Over three billions of dollars of currency, it is estimated, is hidden in America and thus unused. Our Federal Government has established a Postal Savings System paying around one per cent per annum interest to depositors—a dismal contribution, as Mr. Herbert Hoover has pointed out, to the movement for thrift! The three to four per cent paid by savings banks is all that is consistent with mobility of investment; but the American laboring classes, living in a land of high opportunity, with fairyland fortunes flaunted by obese millionaires, cannot be stirred to thrift without an opportunity to participate in the honest speculative and investment chances open to the upper classes. Savings banks can pay only low rates of interest because their invest-

ments must be not only absolutely safe but fluid. Savings deposits lent out by Savings Banks to entrepreneurs pay the user fascinating returns without fatal risk. The poorer classes are entitled to an opportunity of risking part of their savings in order to gain the full return. The participation of the working classes of Japan in investment and speculation, though overdone, is significant. Give the man who saves in pennies and nickels a chance to take honest investment chances, and the impulse to thrift will flourish even as the modern baytree, America's taxes, are flourishing today.

From a third to a half billion of dollars is stolen annually from the American public through the sale of fraudulent securities. Surely this is an encouraging sign so far as thrift is concerned! If the American people can save that amount of money each year to lose gamely in frauds, and in addition can hoard away three billions of dollars returning no profit, is it not evident that they would save much more if encouraged by an opportunity to invest wisely and safely?

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